

# **Interactive Brokers Group's (IBKR)**

## **Q4 2019 Results - Earnings Call Transcript**

**January 21, 2020 4:30 PM ET**

### **Executives**

**Thomas Peterffy - Chairman**

**Paul Brody - CFO**

**Nancy Stuebe - Director, IR**

### **Analysts**

**Will Nance** *Goldman Sachs*

**Kyle Voigt** *Keefe, Bruyette, & Woods*

**Rich Repetto**, *Piper Sandler*

**Chris Harris**, *Wells Fargo Securities*

**Chris Allen**, *Compass Point Research*

**Mac Sykes**, *Gabelli*

### **Operator**

Ladies and gentlemen, thank you for standing by, and welcome to the Interactive Brokers Group Fourth Quarter and Full Year Financial Results Conference Call. (Operator Instructions) As a reminder, today's program may be recorded. And I'd now like to introduce your host for today's program, Nancy Stuebe, Director of Investor Relations. Please go ahead.

### **Nancy Stuebe**

Good afternoon, and thank you for joining us for our year-end 2019 earnings conference call. Once again, Thomas is on the call and will handle the Q&A, but asked me to present the rest of his comments.

As a reminder, today's call may include forward-looking statements, which represent the company's belief regarding future events, which, by their nature, are not certain and are outside of the company's control. Our actual results and financial condition may differ, possibly materially, from what is indicated in these forward-looking statements. We ask that you refer to the disclaimers in our press release. You should also review a description of risk factors contained in

our financial reports filed with the SEC.

Interactive Brokers again ended the year with record numbers, with client equity up 35% to over \$174 billion, double that of 2016. Accounts were 690,000, up 15%, and brokerage pretax margin was 65%.

On the balance sheet side, margin loans rose to \$31 billion, tying our previous record, while our total equity is now over \$7.9 billion.

Importantly, our net revenues, adjusted for our usual noncore items of currency translation and Treasury portfolio marks, were up 1% to \$503 million in the fourth quarter despite events that people believe were likely to lead to a decrease in revenues, such as lower volatility, lower interest rates and the introduction of 0 commissions.

Despite the Federal Reserve lowering interest rates 3 times this year, our net interest income rose 18%. Commission revenue was \$205 million, down 18%, which is to be expected in a quarter where average volatility, which has a big effect on how much our clients trade, fell 33%.

There are now 2 ways for clients to trade at Interactive Brokers.

Our IBKR Pro platform offers our full capabilities and technology with best price execution and our extremely low commission and margin rates, ranging from 1.85% to 3.05% based on loan size. Or you can use IBKR Lite, which we introduced in September, where we offer clients 0 commissions and low margin rates, currently 4.05%, but we let them know that we will route their orders to high-frequency traders in return for payment.

So far, we have about 5,600 Lite customers, 3,600 of whom switched from Pro and about 10% have chosen to switch from Lite to Pro in the less than 3 months since the introduction of Lite.

Because we tend to have a more sophisticated client base that is well aware of the benefits to performance of best price execution on orders, they have chosen to stay with IBKR Pro, and we have not seen a major impact on our business.

We are very pleased that third-party information firm IHS Markit, analyzed U.S. stock execution and has, once again, shown Interactive Brokers execution advantage.

We executed orders at \$0.43 per round lot better, meaning cheaper, than the industry average. That translates to major savings for our IBKR Pro customers who experienced better performance by lowering their trading costs. For the calculation, we include all our market orders over 100 shares, we do not pick and choose data.

We achieve this price improvement for IBKR Pro through our superior technology and our founding practice of never selling our customers' orders. Instead, we search through many venues for the best available price, which is often hidden as traders do not want to reveal their buying or selling intentions. During our search, we constantly refresh accumulated statistical information about the likelihood of finding a better price for any specific stock at any specific venue.

This software is expensive to develop and maintain, but it pays for itself in generating loyal customers who tend to trade more often, and accordingly, benefit the most from superior execution.

Our business is now primarily Electronic Brokerage. And in 2019, the brokerage segment earned a record \$1.2 billion in pretax profits and achieved a 65% pretax margin.

There is no other broker who comes close to our levels of profitability, and we achieve this while offering state of the art technology, low margin rates and high interest rates on customer cash.

Because we are automated and can program for the different currencies, regulations and requirements of other countries, Interactive Brokers has always been an international company. More than 60% of our accounts come from outside the Americas. Over the last year, while our accounts grew 15%, by country that growth was just over 6% in the U.S., 9.5% in China and 23% “everywhere else”. So “everywhere else” is a place where we see ourselves growing more in future.

As the majority of our new customers come to us by recommendation of existing customers, the more we do to give our customers a successful experience, the more people who sign up as clients, and the more likely they will enthusiastically recommend our platform to others. This helps us achieve faster growth. The more new clients we onboard now, the more customers they will bring to us in the following weeks and months.

Now I will go over our 5 client segments.

Individual customers posted the strongest account growth in 2019, up 18% over last year, and make up 50% of our accounts, 35% of our client equity and half of our annual commission. This is a lucrative and well-diversified customer segment that had client equity growth of 36% for the year, though - as would be expected with significantly lower volatility - saw commissions decline 9% for the year.

The worldwide increase in securities markets in the fourth quarter helped our customers' account performance, and we were pleased to see particularly strong account growth internationally.

Introducing brokers posted account growth of 16% and are 31% of our overall accounts. Client equity grew 47% over the past year and is 23% of our total, while commissions saw a slight

decline of 2% and are 9% of our total.

Smaller and midsized brokers, as well as international ones, continue to find it difficult both to justify building and maintaining their own technology, and to offer the global access that customers want, so they come to us to white brand our state of the art technology and capitalize on our low costs. As competitive pressures increase and as agencies in various countries increase their compliance oversight of the financial services industry, the commitment and costs required only grow over time, encouraging more brokers to come to us.

We have not yet seen any change in the ability of our mainland China accounts to fund. Up until the end of last year, we had extremely fast account growth in China, and then it suddenly slowed significantly.

We hear that there are roughly 8,000 people a week who try to open an account with us, and only about 15% of them are able to fund. We do not have any reason to believe this will change in the near future.

Hedge funds constitute 1% of our accounts, 9% of our client equity, and 9% of our commissions as of December 31.

For the year, we saw growth of 4% in hedge fund accounts and 30% in client equity - growth achieved despite the hedge fund industry, overall, experiencing outflows. Hedge fund commissions declined 14%, again due to lower market volatility, which can limit trading opportunities. Hedge funds remain a large multi-trillion dollar global market, and we continue to have tremendous room to grow in this area.

Proprietary trading firms are 2% of our accounts, 11% of our client equity and 15% of our commissions. For the year, this group grew 14% in accounts and 41% in client equity, while their commissions fell 7%. Despite already being well-penetrated in this segment, the growth here shows that our platform continues to demonstrate value and appeal for sophisticated traders and their larger accounts.

Finally, we have financial advisers. They are 15% of our accounts, 22% of our customer equity and 16% of our commissions. Accounts in this group grew by 8%, client equity by 24%, while commissions declined 12% for the year.

Two factors will continue to drive this business. Our Greenwich Compliance group, which provides registration and compliance assistance for new and existing RIAs, continues to sign up RIAs who want to open their own businesses or move away from an existing clearing firm.

Going independent means RIAs can keep all the fees they earn. In an environment where more

advisers are looking to become independent, our low commission and financing rates, high rates of interest paid on cash, and the availability of Greenwich Compliance's services, all contribute to growth in this segment.

Second, with consolidation among our competitors, we have heard from many advisers who do not want to compete for clients with their clearing firm, or be subject to the hidden fees that always seem to sprout up.

We welcome all of them with transparent pricing, no competing in-house advisers, free portfolio performance reporting, a free CRM, and global market access.

There is a lot that we are looking forward to in 2020 to improve and enhance the customer experience.

You will first see our newly launched Bond Scanner, where our clients can enjoy low, fully transparent commissions on bonds, with no markup on bond prices. We offer a full universe of U.S. government securities, as well as over 33,000 CDs, 38,000 corporate bonds, and 1.4 million municipal securities. You can search our inventory, or compare available yields against those of other brokers. We also offer filters that can help you select the yield or ratings you want.

For all this, we will only charge 2.5 to 10 basis points on a corporate bond and, as always, we pass through the highest bids and lowest offers available at the electronic venues we access, with no markup.

We also have new markets, new improvements to our platform, and new product categories we will soon offer, all with the same experienced Interactive Brokers' team who have told me not to say any more about our future plans.

With that, I will turn the call over to our CFO, Paul Brody, who will go through the numbers for the quarter.

**Paul Brody**

Thank you, Nancy. Thanks, everyone, for joining the call. As usual, I'll review our fourth quarter and the full year results and the main factors that drove those numbers, and then we'll open it up to questions.

Beginning with this quarter, we will report non-GAAP measures in our earnings release, including the impact of our global currency diversification strategy, marks-to-market on our Treasury portfolio and other material noncore items. We have been describing the effects of these items, which we consider to be outside our core brokerage performance, in our quarterly earnings

calls for some time. We think this new presentation will illuminate these effects in a straightforward manner. Tables can be found at the end of our earnings release.

Also, comprehensive income measures, which similarly reflect non-core currency effects, are no longer stated in our headline numbers. However, they can still be found at the end of the income statement presentation.

Turning to operating data. Despite lower market volatility and interest rates, gains in net revenues and pretax income were driven by a strong net interest income built on solid growth in client cash balances. Total accounts grew to 690,000, up 15% year-over-year. Along with rising equity markets around the world, account growth contributed to client equity growth of 36%. We saw a growth in all customer segments, particularly individuals, proprietary traders and introducing brokers.

Lower market volatility led to lighter trading volumes and lower commissions versus a strong quarter last year when volatility, as measured by the average VIX, rose to a multiyear high of 20.8.

This quarter, the average VIX fell to 14, down 33%, contributing to an 18% decline in commission. However, despite lower benchmark U.S. interest rates, our net interest income rose 18% versus the fourth quarter of 2018, primarily on 17% growth in customer cash balances.

Lower volatility led to declines in options, futures and stock volumes. These are not out of line with overall industry volumes in the U.S., which were down in all 3 categories. FX dollar volumes fell as well.

Measured against our all-time high in the fourth quarter of 2018, our total DARTs for the quarter fell 16%. However, our average commission per DART fell only 5% to \$3.61, supported by larger average trade sizes in-stocks and options. Results for the full year reflected the continued momentum and operational leverage of our core brokerage business. Full year commissions declined 9% on lower volatility and trade volumes, while net interest income grew 17%, driven by higher customer cash balances and strong securities lending. Lower volumes were seen in most product categories, echoing overall industry volume trends.

For the full year, total DARTs fell 3% and average commission per DART fell 5%, as volatility declined consistently over the course of the year and never reached its highs of 2018.

Net interest margin table, shows that our NIM widened in the fourth quarter to 1.70% from 1.65% in the year-ago period. For the year, NIM was also 1.70%, up from 1.62% last year.

Despite lower interest benchmark rates in the U.S., higher segregated cash balances, including FDIC sweeps, and our securities lending business drove this increase.

The Federal Reserve lowered rate 3 times over the course of 2019, nearly reversing all the rate hikes in 2018.

During the year, we kept a relatively short duration on our U.S. Treasury portfolio. In the falling rate environment, we recorded a mark-to-market gain of \$7 million for the year, including a modest \$1 million loss in the fourth quarter. As always, we plan to hold these securities to maturity, so these gains and losses are temporary. But as brokers, unlike banks, GAAP rules require us to mark these securities to market in our financial reporting. This is one of our non-GAAP items that we consider to be noncore.

Outside the U.S., interest rate changes were mixed. As about 24% of customer credit balances are not in U.S. dollars, changes in our net interest income are not fully correlated to U.S. rate changes.

Higher customer cash balances and strong securities lending generated more net interest income. Segregated cash interest income rose 21% over the year-ago quarter, primarily due to higher balance. Our FDIC Insured Bank Deposit Sweep Program reached \$2.2 billion and continues to grow and contribute to higher net interest income.

This program offers high rates of interest and FDIC insurance on up to \$2.5 million of cash in our customers' accounts, in addition to the \$250,000 of SIPC coverage. Note that this revenue is reported in Other Income on the income statement, but is reported with interest income in the NIM table.

Margin loan interest declined 18% in the year-ago quarter due to a combination of factors, including lower balances for much of the year as well as lower benchmark rates. The rise in margin lending toward the end of the year reflects our growing ability to support the needs of larger customers as opportunities present themselves.

Securities lending interest income was up 60% this quarter and 19% for the year, as we took advantage of continued opportunities to satisfy demand for hard-to-borrow high rate security. Customer short stock value was up 43% from the prior year end.

Our estimate of the impact of the next 25 basis point increase in U.S. rates is as follows. Market expectations of rate changes are typically built into the yields of the instruments in which we invest. Therefore, in our calculation, we attempt to isolate the impact to our earnings of an unexpected rise or fall in rates, separate from the impact of rate hikes or cuts that have already been baked into prices of these instruments. We would therefore expect the next 25 basis point

unanticipated increase or decrease in rates to result in \$22 million higher or lower, respectively, net interest income, as the yearly run rate. And for the immediately-following 4 quarters, as our segregated cash is reinvested at the new rate, this would be \$20 million higher for a rate hike and \$17 million lower for our rate cut.

Turning to the segments, Electronic Brokerage produced gains in net interest income for both the fourth quarter and full year periods, while commissions declined due to lower trade volumes. For the fourth quarter, Brokerage net revenues were \$486 million, down 1%; pretax income was \$314 million, up 1% for a 65% pretax margin.

In the expense categories, execution, clearing and distribution fell 19% to \$56 million, in line with trade volumes. Fixed expenses were \$117 million, up 8%, including modestly higher levels of compensation and occupancy, as well as increased legal and compliance expenses and contributions to reserves.

Customer bad debt expense was a gain of \$1 million this quarter, reflecting recoveries of prior period bad debt.

For the full year, Brokerage net revenues rose to a record \$1.92 billion, up 4%, with pretax income also reaching a record \$1.20 billion, up 2% for a 62% pretax margin. Fixed expenses rose 9% to \$442 million; adjusted for noncore items, pretax margin was 64%.

Market Making consisted of the customer facilitation activities we will retain and options market making in 3 markets outside the U.S., now down to 2, as we have wound up operations in Canada.

For the quarter, net revenues were \$15 million, of which \$7 million were trading gains and the rest was net interest income. Market making pretax income was \$5 million. And for the year, net revenues were \$67 million and pretax income was \$30 million. Expenses from the activities we are keeping are largely offset by related revenues and such activities should have minimal impact on margins if they are later absorbed into brokerage.

The Corporate segment reflects the effects of our currency diversification strategy. We carry our equity in proportion to a basket of 14 currencies we call the GLOBAL, to best reflect the international scope of our business.

As the U.S. dollar weakened against most other major currencies this quarter, we incurred an overall gain from our strategy of \$50 million, of which \$12 million is included in earnings and \$38 million is reported as other comprehensive income.

We estimate the total increase in comprehensive earnings per share from currency effects to be

\$0.11, with \$0.02 reported in Other Income and \$0.09 as OCI.

For the year, the overall loss from our currency strategy was \$36 million, of which a loss of \$60 million is included in earnings and a gain of \$24 million is reported as OCI.

The total decrease in comprehensive earnings per share from currency effects for the year was \$0.06, with \$0.12 loss reported as Other Income and \$0.06 gain as OCI.

Taking a look at the income statement. For the fourth quarter, net revenues were \$500 million, up 2% over the year-ago quarter. And adjusted for noncore items, net revenues were \$503 million for the quarter, up 1% over last year.

Noncore items include \$12 million gain on our currency strategy and a \$7 million loss on our investment in Tiger Brokers.

Commission revenue declined 18% on lower volumes in all product categories. The 5% decline in the overall average cleared commission per DART to \$3.61 reflected a mix of average trade sizes, larger in stocks and options, smaller in futures and ForEx.

Of \$287 million net interest income, brokerage produced 97%. Other income, which includes our global currency strategy, Treasury marks and other fees and income we receive was \$38 million, modestly higher than last year.

For the full year, net revenues were \$1.94 billion, up 2% over the prior year. Full year adjusted net revenues were \$1.98 billion, up 4% over last year.

Noncore items for 2019 include the \$60 million loss on our currency strategy, the \$7 million gain from Treasury marks and a \$6 million net gain on our other investments, including Tiger Brokers.

In 2018, the primary noncore items were a \$19 million loss on the GLOBAL and a \$9 million gain from Treasury marks.

Noninterest expenses were \$188 million for the quarter, up 3% from last year. Increases reflect support for the continued growth of the brokerage business, with higher compensation and G&A expenses, including legal and compliance costs and reserves, partially offset by lower execution, clearing and distribution fees and bad debt expenses.

For the full year, noninterest expenses were \$780 million, up 10%, driven primarily by higher compensation and G&A expenses, as well as higher customer bad debt, on the event previously disclosed in the first quarter.

At year end, our total headcount stood at 1,643, up 16% from last year. We have been hiring most aggressively in the areas of Client Services, Compliance, and Systems Development. And to this end, we have continued to build up our operations in India.

For the fourth quarter, pretax income was \$312 million, up 1% over last year. And on an adjusted basis, pretax income was \$315 million, also up 1%, representing an adjusted pretax margin of 63%.

For the full year, pretax income was \$1.16 billion, down 3%, and adjusted for noncore items, was \$1.25 billion, up 3% for a pretax margin of 63%.

Diluted earnings per share were \$0.57 for the quarter and \$0.58 adjusted for noncore items, both even with the prior year. For the year, diluted earnings per share were \$2.10. Adjusted for noncore items, diluted earnings per share were \$2.27 for 2019 versus \$2.28 last year.

Comprehensive diluted earnings per share, which includes all currency effects, were \$0.66 for the quarter versus \$0.56 last year. And for 2019, they were \$2.16 versus \$2.09 last year.

To help investors better understand our earnings, taxes, and the split between the public shareholders and the noncontrolling interest, fourth quarter numbers are as follows:

Starting with income before income taxes of \$312 million, we then deduct \$7 million for mostly foreign income taxes paid by our operating companies. At least \$305 million, of which 81.5%, or that \$250 million reported on our income statement, is attributable to noncontrolling interests.

The remaining 18.5% or \$55 million, is available for the public company shareholders. But as this is a non-GAAP measure, it is not reported on our income statement. After we deduct remaining taxes of \$11 million, the public company's net income available for common stockholders is the \$44 million you see reported on our income statement.

The income tax expense line of \$18 million on our income statement consists of this \$11 million plus \$7 million of taxes paid by the operating company.

Our balance sheet remains highly liquid with low leverage. With \$7.94 billion in consolidated equity, we are well capitalized from a regulatory standpoint and are deploying our equity capital in the brokerage business as it continues to grow.

We hold excess capital in order to take advantage of opportunities, such as support for additional customer financing, as well as to demonstrate the strength and depth of our balance sheet.

We continue to carry no long-term debt.

And at December 31, margin debits peaked at \$31 billion, an increase of 16% from last year, although average margin debits were off 9% for the year. We continue to expect swings in margin lending balances due to our success in attracting institutional hedge fund customers, who are more opportunistic in taking on leverage. As the end of the year activity demonstrates, we are increasingly well positioned to satisfy customers' willingness to take on leverage when market yields present opportunities.

Out of our consolidated equity capital at December 31, 2019, of \$7.94 billion, \$6.77 billion was held in Brokerage, \$940 million in Market Making and customer facilitation activities, and the remainder in Corporate.

Now I'll turn the call back over to the moderator, and we can take some questions.

## **Question-and-Answer Session**

### **Operator**

(Operator Instructions) Our first question comes from the line of Rich Repetto from Piper Sandler.

### **Rich Repetto**

I guess, going right back to the beginning of the call, I just missed some of the numbers on the IBKR Pro and Lite. I thought you said 5,600 Lite customers, 3,600 came from Pro, and you said 10% moved back. The last part is what I didn't get. Just trying to understand those numbers? And what's the explanation you think behind that, the movement, I guess?

### **Thomas Peterffy**

The numbers are so low that it is very difficult to generalize from them. So I'll give you numbers as of last night. As of last night, the close of business, we had 8,000 Lite accounts. So approximately 25% of new accounts are Lite. Roughly, of the 8,000 accounts, 1,200 or so have switched from Pro since year-end, and the rest were new applicants. So it is still very early to tell.

As far as profitability is concerned, as we have said before, we think that the profitability between Lite and Pro is roughly even, but it's very difficult to generalize because as you know, our commissions are tiered and the more you trade the less commissions you pay on the next trade. So as a result, the smaller infrequently-trading accounts would pay more commissions under Pro than what we receive in payment for order flow. On the other hand, the more frequently trading accounts pay less commission than what we receive in payment for order flow.

In addition, the Lite accounts receive 1% less interest on idle cash than the Pro accounts, and they

pay 1% more margin interest than the Pro accounts.

So all in all, it's pretty even. As we accumulate more and more Lite accounts, we'll -- maybe we'll be able to discern a reference.

**Rich Repetto**

Okay. I guess another question is -- I guess, on the commercial bank license, can you sort of talk about where that stands? And what sort of an impact it will have?

**Thomas Peterffy**

So we're still at the question-and-answer phase. And as far as impact, it is going to start up very gradually. The impact will be very gradual. First, we will take FDIC-insured deposits and time deposits, and will enter into some non-purpose secured loans, and we are going to build it up very slowly and carefully.

**Rich Repetto**

And last question, Thomas, the -- “wherever else” where the growth is coming from these days. I guess, can you talk -- is the advantage there? We know you have a technology advantage, but is it growing in the same way like through introducing brokers, predominantly, like you did in Asia when it was growing fast? And just a little bit more color on the high growth you're seeing in this “wherever else” region.

**Thomas Peterffy**

So actually, the highest growth -- individuals -- individuals' growth has been around 24% outside of the Americas. And hedge funds are -- there are very few hedge funds outside of Americas. Prop Trading has picked up a little bit in Asia, and Financial Advisers are growing faster outside of Europe than inside because, of course, we have less competition there. And I-Brokers are also more outside of the United States and outside of Americas.

**Operator**

Our next question comes from the line of Kyle Voigt from KBW.

**Kyle Voigt**

Just -- first question is just on China. You noted that the accounts are growing 9% year-over-year in China. I just wanted to clarify -- is that from Mainland China specifically, and...

**Thomas Peterffy**

Yes.

**Kyle Voigt**

Okay. And then second part of that question is just related to the funding rate. I think you

previously disclosed a 5% funding rate. So 5% of the accounts that were attempted to be open, were actually being funded? It sounds like that's moved up to 15%. So...

**Thomas Peterffy**

I'm sorry, that 5% must have been.....so the question is, the question is whether you look at account applications that start versus account applications that complete, so completed account applications, roughly 15% successfully fund.

**Kyle Voigt**

Okay. So there's been no change in that.

**Thomas Peterffy**

Someone will start an account application and never finish, but that's got nothing to do with the inability to fund.

**Kyle Voigt**

Understood. So there's been no change in that funding rate over, let's say, the past couple of quarters?

**Thomas Peterffy**

Yes, that's roughly -- I mean, it fluctuates from week to week and month to month, but no. I mean, there hasn't been a big change either way over the last 6 months, right.

**Kyle Voigt**

Understood.

**Thomas Peterffy**

Over the last 9 months, there hasn't been much of a change.

**Kyle Voigt**

Second question for you just on your ownership stake. I think there was a -- the trading plan was set to begin selling some of your shares in July of last year on a daily basis. Just wondering why that hasn't gone into effect yet, and when we could expect those share sales to commence?

**Thomas Peterffy**

I haven't -- just not ready, but I'll be very soon.

**Kyle Voigt**

Does that have to do with the share price or?

**Thomas Peterffy**

It's a mix. It's an emotional thing.

**Kyle Voigt**

Okay. And then last one for me, just on expenses. I think the fixed expenses in the broker were up 9% year-over-year in 2019 for the full year. Just wondering, as we're looking out to 2020, should we think about a similar pace of expense growth for 2020?

**Thomas Peterffy**

Yes.

**Operator**

Our next question comes from the line of Will Nance from Goldman Sachs.

**Will Nance**

Maybe I -- can I start on the net interest margin? I know last quarter, there was a bit of a lag impact of rates on some of the earn rates that you saw in the quarter? And just wanted to kind of clarify - how much of a lag impact is in there this quarter, if any? And, I guess, holding sec lending constant because that bounces around, how do you think about where the NIM kind of levels out and fully factors in all the rate cuts that we've seen?

**Thomas Peterffy**

Paul, go ahead.

**Paul Brody**

Yes, sure. So -- well, you're right to identify and what we've spoken about some lag time. That lag time, especially in the decreasing rate environment, we've kept very short, so our duration has been, I'd say, typically less than 60 days. As far as the outlook, if you can tell me what the Fed is going to do, I might be able to comment on that. If it stays constant with no rate changes and basically, not much of a yield curve, you're probably going to see similar results to what we've got in the latest quarter.

**Will Nance**

Got it. That's helpful. And then maybe just a quick one. I think you've had this disclosure in the earnings release about responding to inquiries from various regulators due to kind of Bank Secrecy Act, anti-money laundering related practices, I was just wondering if there's any color you can provide on the status of these issues or what they relate to? Just to give us a sense for what's driving that disclosure?

**Thomas Peterffy**

We expect to wind it up this quarter.

**Operator**

Our next question comes from the line of Chris Allen from Compass Point.

**Chris Allen**

Wanted to follow-up a little bit on the growth outside of China and the Americas. I was wondering if you could give us any granularity in terms of specific markets that are driving the growth? And where you're maybe seeing accelerations versus maybe a year ago?

**Thomas Peterffy**

We don't want to get any more granular than we are. Because there is no point in giving more information to our competitors.

**Chris Allen**

Fair enough. And then pivoting to the -- on the expense side. At the Goldman conference, you talked about a 3-year project and rebuilding compliance and surveillance, it looks they're starting to come to an end. It sounds like it was a fairly large project. I'm assuming it's been part of the driving -- is the part of the acceleration on the expense side in recent periods. Will there be an impact in terms of that falling off, in terms of the expense trajectory? Or do you have other projects coming on that are likely to sustain the expenses?

**Thomas Peterffy**

So unlike most other companies, we do not go by project. We try to hire as many developers as we can, and we always have more work for them than we can get done. So you will not see -- we hope that the expenses will keep on growing because that means that we are doing more and more development, so that's where we are.

**Chris Allen**

And then just a quick one on the -- within the other income, the mark-to-market impact of \$15 million, \$7 million worth of Tiger, \$1 million on the government. I'm just wondering what the other piece was of the missing \$7 million there?

**Paul Brody**

I'm sorry, in other income?

**Chris Allen**

Yes. The mark-to-market impact of \$15 million that you have in the reconciliation. I'm just wondering -- there was a \$7 million Tiger, \$1 million in U.S. government. I'm just wondering what the other \$7 million was?

**Thomas Peterffy**

Treasuries?

**Paul Brody**

Well, in other income, as a category, it's spread across many different categories like market data and exposure fees and so forth. And that makes up the remainder of the other income category.

**Operator**

Our next question comes from the line of Chris Harris from Wells Fargo.

**Chris Harris**

So the Schwab-Ameritrade merger has the potential to create some disruptions for the customers of those firms. I think you guys had mentioned having some increased conversations with some financial advisers about the potential for those two companies combining and what it can mean for their businesses. How big of an opportunity do you think that a potential disruption could be for Interactive? And do you guys think that your adviser platform is like a destination that an average Schwab adviser might consider or an average Ameritrade adviser might consider?

**Thomas Peterffy**

Well, so we generally hear great concern about the merger among many of the registered investment advisers. They worry about less competition and less innovation. Many believe that TD's technology is better than Schwab's, and I hope that the merged entity will –the undermerged entity's platform will be able to continue to use TD's technology. Some RIAs worry that Schwab has internally employed RIAs who will compete with them. I don't really think that's the case, but that's what we hear. We get -- basically most of the inquiries are one of two kinds. Some people who used to be on the Schwab platform, and ran over for whatever reason to Ameritrade are now worried about having to go back. And they say, no, I don't want to go back, so show me what you got. And the other type is that many of the larger RIAs use both Schwab and Ameritrade and Fidelity, and now that one of them will fall out, they are looking to us as a substitute. How big? I don't know.

**Chris Harris**

Okay. That's helpful. And just one follow-up. I'm curious about stock lending, another really strong quarter for that part of your business. Are there a handful of stocks that are driving the results there? If so, what are they? And if not, you don't have to mention all of them. And then I'm just wondering how we should think about sustainability in that part of your business?

**Thomas Peterffy**

There are always a handful that are more in demand than the others. So yes, when we're lucky enough to have them that matters a lot. But I think what is most important is that we have

automated the entire process. So people who are our clients can see our automated presentation of how much inventory we have, how much we will borrow a stock for and how much we will lend it for. So they basically see a borrow-and-lend market constantly online, and that brings us interesting customers. So yes, we expect it to grow in the future.

**Operator**

(Operator Instructions) Our next question comes from the line of Mac Sykes from Gabelli.

**Mac Sykes**

Just to circle back to China a little bit. Could you just talk about what you're seeing in terms of product and geography demand from those clients that are funding new accounts? Is there any nuance for some of the things that they're accessing on your platform?

**Thomas Peterffy**

I'm sorry, I'm unable to answer your question. I don't know. The answer is, I don't know.

**Mac Sykes**

Okay. And then I think you've talked about kind of this new 0 trading commission environment and sort of the investor education and understanding of the true cost of trading. I was wondering if you've adjusted kind of your advertising at all around this to kind of differentiate yourselves with respect to those 2 platforms?

**Thomas Peterffy**

Well, I don't know if you have seen our ad, what we're basically saying that, look, come to us and you can experience both sides and decide for yourself which one is better for you. We are great believers that the Pro execution is better by more than the commission that we charge. But that is again -- it's not 100%. I mean, on different rates, it may work out differently.

**Operator**

And this does conclude the question-and-answer session of today's program. I'd like to hand the program back to Nancy Stuebe for any further remarks.

**Nancy Stuebe**

Thank you, everyone, for participating today. As a reminder, this call will be available for replay on our website. We will also be posting a clean version of our transcript on our site tomorrow. Thank you again, and we will talk to you next quarter end.

**Operator**

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.